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Reasons and remedies for our business troubles

[Pittsburgh]

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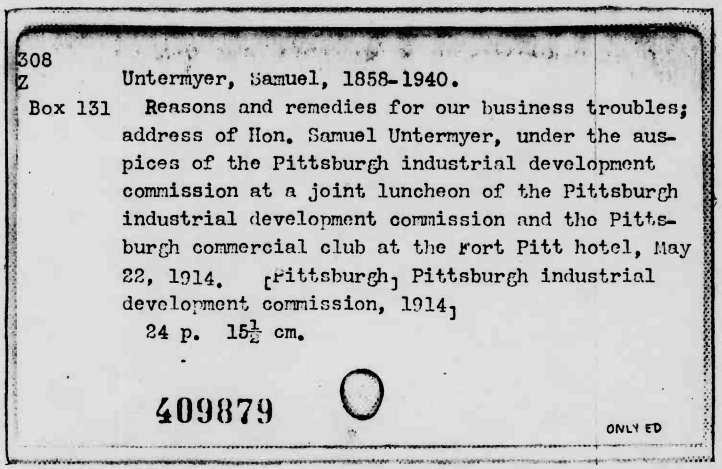

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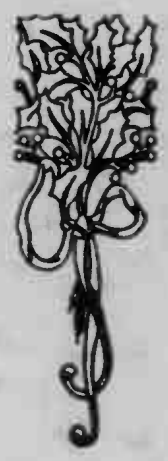
REASONS AND REMEDIES FOR OUR BUSINESS TROUBLES

BY

HON. SAMUEL UNTERMYER



Issued by

Pittsburgh Industrial Development Commission

REASONS and REMEDIES

for our

BUSINESS TROUBLES

Address of

HON. SAMUEL UNTERMYER

under the auspices of the

Pittsburgh Industrial Development Commission

at a joint luncheon of the

Pittsburgh Industrial Development Commission

and

The Pittsburgh Commercial Club

at the

FORT PITT HOTEL, MAY 22, 1914

REASONS AND REMEDIES FOR OUR BUSINESS TROUBLES

By Hon. Samuel Untermyer

It is useless to blink at the fact that we are in serious trouble. At the end of a long series of years of bountiful crops and with a record-breaking harvest for the present year assured, when optimism should be rampant, we are confronted everywhere by business contraction and depression. The New York banks are overflowing, call money on Stock Exchange collateral is a drug on the market, as is always the case when business is languishing, and yet it is impossible to secure loans on improved unencumbered real estate or investment funds for new enterprises on any terms. Capital is everywhere hoarding its resources for some emergency and the small investor seems to have disappeared.

Why? Until we have diagnosed the disease it would be dangerous to attempt to apply the remedy. There are doubtless contributing world-causes, but they are so remote as to be almost negligible. There are such things as world cycles of business and financial depression due to destructive wars, widespread famine, panics brought about by over-straining the world's capital resources and by over-speculation—but no such conditions confront us at the moment.

True, the Balkan war and the demands upon European centers for funds with which to refinance the Balkan States are and will for some time continue to be a severe drain and will divert European capital from us, as do the attractions of the vast

new enterprises in Russia, South America and the Far East.

But we have accumulated wealth so rapidly that we are year by year less dependent on the investment of new foreign capital in our country, although it is still very important to us that existing investments shall not be withdrawn as they have been recently.

Our troubles do not, however, lie primarily in that direction.

Nor is the tariff bill to any appreciable extent responsible for our plight. A downward revision was demanded by the people and recognized by all parties. The change has been from an average of about 43 per cent. to an average of about 26 per cent. and has been on the whole wisely distributed. It is the first tariff bill enacted in our history that was unselfish and uninfluenced by the demands of special interests, which have heretofore dictated this class of legislation. If with that percentage of protection we are unable to meet foreign competition in our own country and stimulate our export business, we may as well count ourselves "out of the game" in the world's markets.

The statistics for the first eight months of the operation of the new law show far less disturbance in the currents of trade than was fairly to be expected. We have been a shiftless, prodigal and unscientific people in our methods of manufacturing and marketing our goods. The undue shelter of the tariff and the elimination of home competition through the trusts and trade agreements have weakened our business virility, encouraged extravagance, substituted bureaucracy for individuality in our trust-controlled industries and have thereby crippled our competitive power. With our superior labor and vast natural resources we should be leading the world as an expert manufacturing nation, instead of which we are in imminent peril of ceasing to be a factor.

If, as I believe, time shall demonstrate that, with the return to individuality in business and the practice of skill and economy and with the resourcefulness that are ours, we are able to meet foreign competition with the aid of the generous protection we now enjoy, the struggle will have been wholesome and stimulating. There is no basis for charging our present conditions to the tariff.

What, then, are the reasons assigned and where lies the truth?

First and foremost, it is insisted in certain influential quarters that the policies of the administration are responsible. Its economic program is simple —to destroy the trusts and curb existing corporate abuses—which is said to be unsettling business. Our newspapers are feeling the effects of business contraction and financial stagnation in their advertising columns. In casting about for an explanation they have adopted the views of the supposed financial experts, whose interest it is to divert blame from themselves, especially when it offers them the opportunity at the same time to fasten it upon an administration that is pledged to correct their excesses. And so we have the great power of the press honestly but, I think, mistakenly, generally supporting the cry that the demoralization is due to impending legislation.

If this is an erroneous view it is doing incalculable harm. Like every treatment based upon a false diagnosis, the real disease continues to develop and progress through neglect, while the healthy organs are weakened by the irritation resulting from mistaken treatment.

It is therefore of the highest importance that we get at the actual facts. Our national prosperity is involved in reaching the right answer. Party spirit and party advantage should play no part in such an inquiry. In the interest of the country, as well as for our own sakes, let us be absolutely fair in seeking the solution. Nothing is to be gained and much will be lost if we are diverted to false leads.

I am an ardent admirer of our Chief Magistrate,

but not a blind worshipper or follower of his or any other man's policies. Like all of us, his judgment is fallible, but he has shown himself exceptionally responsible to the public will and has made surprisingly few if any mistakes in dealing with the stupendous problems that have been thrust upon him and in carrying out the program that he was commissioned to execute.

In fourteen months of power the party has been confronted with more grave and sudden international and national emergencies than have come to any other in previous administrations in as many years. He has met the situations as they arose with candor, courage and splendid judgment and has grown day by day in the confidence and affections of the country. I believe in his high ideals of public duty and in his intense patriotism; but he has no monopoly of those virtues. They have characterized every President in the history of our nation. That is our proud boast, and the fact that it is true is the best proof of the success of Republican institutions.

Let us briefly analyze what the administration has thus far done and what it is proposing so that we may determine whether there is any basis for the charge that it is to any extent accountable for the present distressing business unrest and uncertainty.

Its critics claim that our Mexican policy has been wavering and provocative of war; that we should either have recognized Huerta at the outset and thus assisted him to restore order in his country or have intervened in short order to that end, with the prospect of a long and bloody conflict that would have confirmed and concentrated upon us the suspicion and hatred of our South American neighbors whose confidence and friendship we are anxious to secure.

When the history of the events that preceded the present administration is written and the story of wholesale assassination, treachery and chicanery by which Huerta secured and maintained power, and his savage disregard of decencies necessary to diplo-

matic intercourse in his dealing not only with us but with the representatives of all the powers are told, it will be seen that, quite apart from the fact that we were asked to encourage on our borders a government founded on assassination, it would have been for many other reasons impossible to have diplomatic relations with that sort of dictatorship.

Posterity will, in my judgment, give high praise for the splendid evidence furnished by this incident of the depth of sincerity of our desire for world peace, as evidenced by our rare patience and self-abnegation. We have at last made our neighbors realize that we shall never wage a war of conquest. The lesson we have taught by our attitude under intolerable provocation that a giant nation need not use its strength as a giant is well worth the price. We are about to witness the triumph of a new diplomacy on this continent that will render war hereafter well-nigh impossible and will advance the cause of humanity by centuries. No greater service was ever performed. Our nation will head the roll of honor in the cause of universal peace.

The situation was, in any event, unavoidable. It was a legacy to the present administration from its predecessor. There is nothing in it to account for the trouble we are now discussing. They were with us before the Mexican crisis arose and have not been altered by it. War would stimulate rather than depress business, temporarily at least. So we may dismiss that consideration and take up, in order, the domestic causes that are assigned; all of which are based on the past accomplishments and present proposals of the administration by way of legislation.

Apart from the tariff bill, and yet a part of it, there has been enacted the income tax law. Surely none will deny the wisdom of that legislation or contend that it has tended to impair confidence or unsettle business. It was a cruelly long-delayed act of justice to the toiling masses upon whom all the burdens of government had been laid. Let us hope that the present law is only an entering wedge. I believe the time is not far distant when the revenues

of the government from that source will develop our vast natural resources, convert our deserts into rich agricultural gardens, widen and deepen our rivers and harbors, maintain an army and navy that will make for universal peace, furnish prosperous employment for hundreds of thousands of our people and inaugurate, with the co-operation of employers of labor, a vast system of social reforms that shall include old-age pensions and insurance against sickness and unemployment. The enactment of this program will be the answer of capitalism to the impracticable theories of Socialism.

The passage of the currency law is the other momentous accomplishment of the administration within its brief life. Nothing more distinctively constructive and reassuring to business and nothing more necessary to its safety, stability and independence has ever been accomplished. Its detractors have been forced to recognize its value and have been converted into unwilling champions in the face of their dire prophecies of disaster. The rich harvests of the privileged few and the sufferings of the many from financial panics are things of the past, thanks to the courage and wisdom of this legislation.

Yet it is only a few months since our troubles were being charged to the pendency of the currency bill and a formidable movement was under way to postpone action upon it, for the same reason that is now being urged for delaying the settlement of the trust question. Would it have made for the betterment of conditions if currency legislation had been left "hanging in the air" for another year? The same reasoning applies in favor of now ending the agitation and uncertainty over the problem now under consideration.

There is nothing revolutionary or unsettling in the proposals embodied in the pending trust bills. The only just criticism is that in their present form they are too largely made up of compromises—weak, superficial, ineffective and innocuous. They will not, as they stand, eradicate the intolerable evils against which they are supposed to be directed. The sub-

committee by which they were drafted and which have been for months faithfully and industriously struggling with their complicated problems have mistaken the boisterous activity of a small, selfish, powerful group, working their now familiar publicity campaign, for the voice of the business world, and have timidly surrendered to the outcry. The objections that appear to come from the business community are genuine only to the extent to which they too have been misled by this campaign in which they have been cleverly thrust forward as pawns in the game that the big interests are playing under cover of legitimate business. The protesting resolutions of Chambers of Commerce against this, that and the other feature of the bill with which Congress is being inundated are old acquaintances. We now know how they are engineered. They have lost their terrors unless supported by reason. The article they furnish is now recognized as the purchaseable commodity of a new but already well-organized industry that has been happily christened by one of its chief practitioners as the "acceleration of public opinion."

Comprehensive regulative laws, covering this entire field, are essential to the continued existence of small business and to restore its independence. We are constantly being deluded by the cry that we have too many laws and that what we need is a proper enforcement of those we have. This is not true in the field under discussion. Our corporate form of business has developed so rapidly and on such a vast scale that the laws to regulate it have not kept pace with the growth and development of our corporate government. The absence of those restrictions is largely responsible for the corporate corruption from which we are suffering, the evidences of which are gradually coming to light.

The public has been for years warned of its existence and of the necessity for relief by those who are familiar with the facts and who have had the courage and public spirit to speak out, but their voices have been drowned by the power of the entrenched interests and they have been rewarded

chiefly with inspired abuse and misrepresentation of their motives. Nothing has been disclosed within the past year that was not plainly foreshadowed by the testimony and report of the Pujo Committee. The time has at last come when legitimate business and the community that have so long been victimized are beginning to recognize the peril. Substantially all the pending legislation is outlined in the recommendations of the report.

We need laws:

1. Prohibiting all forms of interlocking control of big competitive businesses, of which interlocking directors is but one of its many manifestations, but it is not necessary to interfere with small business or to bring it under Federal regulation.

2. Prohibiting holding companies that are in restraint of competition.

3. Regulating competition, with a view of preventing the practice of unfair business methods by big business to the injury of small competitors.

4. Prohibiting the "dummy" director and all other forms of secret control, so that the responsibility for corporate action shall be fixed upon those who in fact dominate and guide the corporate policy and benefit by its lawless acts.

5. For the protection and proper representation of minority stockholders.

6. Rigidly regulating and supervising the issue of corporate securities through the agency of Federal commissions and requiring complete publicity of the purposes to which the proceeds are to be applied and of the profits of the bankers, promoters and intermediaries.

7. Abolishing the "graft" of constituting private bankers as the sole fiscal agents and depositaries of the funds of the corporations whose policies they dictate and requiring that their funds be placed in banks where they will be subject to supervision.

8. Placing the operations of the Stock Exchange under Federal supervision, so as to put an end to the long era of shameless manipulation of security prices through the use of the machinery of the

Exchange and to which dishonest practice many of our vast fortunes may be traced.

9. Releasing the grip of the handful of men constituting the "Money Trust" over our great interstate railway and industrial systems by abolishing "voting trusts," reforming our methods of appointing receivers of insolvent corporations and by placing reorganizations under the control of the courts and of Federal commissions.

10. For a systematic and impartial enforcement of the anti-trust law, which has never been and is not now being generally enforced.

11. Taking out of the hands of the Attorney-General and furnishing the necessary legal and executive machinery for the enforcement of the decrees of the courts for the dissolution of combinations that have been adjudged to be unlawful and for actually disintegrating and keeping segregated such corporations and thus ending the farce in which our Attorney-Generals have been engaged and that is bringing the administration of justice into deserved contempt.

12. Giving to every party who is injured by the existence of an unlawful combination the independent remedy to enjoin the illegal acts or suing to dissolve the combination without awaiting the slow, uncertain and spasmodic processes of the Department of Justice. This right should, however, be safeguarded against abuse by allowing the government to assume control of any such action at its pleasure and by preventing any settlement or other disposition of the action between the parties without its consent.

These are the more urgent of the many subjects that it is hoped to include in the pending program when perfected, as it should be and as I have every reason to believe it will be.

It is not so formidable a program as would appear at first glance, but the entire field is so highly technical and specialized that the opportunities to mislead are endless. There is nothing in any feature of the program that should disturb or unsettle busi-

ness or finance; nothing that is not distinctly wholesome and constructive. Its enactment will protect and reassure honest investment and should give a new impetus to independent enterprise.

In order to determine whether the pendency of this legislation is in fact injuriously affecting business, it might be worth while to analyze briefly the objections that have been urged against it. They are directed mainly against the prohibition of interlocking directors and holding companies and they come apparently from many sections of the country.

The necessity for this legislation was developed as the result of the investigation of the Pujo Committee, from which it was demonstrated that these were the most formidable instrumentalities through which the "Money Trust" obtained its grip upon the finances of the country. Through the medium of interlocking control many of the great banks, railway systems and industrial combinations were welded together into a single "community-of-interest" against which independent enterprise found it impossible to contend and which still remains undisturbed. We shall never achieve industrial independence or peace until it has been destroyed, root and branch.

It was through the agency of the holding company and the supineness of the Department of Justice that the organization of the great trusts became possible. The idea of any corporation being controlled by another corporation—a puppet moved at the direction of a power other than of its own governing body—is repugnant to all conceptions of justice. It was not intended that a corporation should ever be governed by another corporation. That form of management involves on its face a breach of trust toward the outstanding stockholders, who are entitled to have the benefit of the undivided judgment of their managing trustees in the sole interest of their own corporation and without regard to the interests of any other agency. Under this system of government the management of the controlled company is necessarily conducted primarily for the benefit of the controlling or holding company, which

may be and often is opposed to the welfare of the controlled company.

The claimed embarrassment to business that will result from unlocking these interlocking interests is more fancied than real, provided the operation of the law is confined, as it should be, to the larger corporations. A reduction in the number of directors will answer the important purpose of concentrating responsibility. The large corporations are managed mainly by their executive committees. The boards, consisting of from 20 to 40 directors, are unwieldy and a distinct impediment to effective administration. They are mere registering machines for the executive committee. Their names are advertised to the public as a guaranty of management, which is, in fact, misleading and intended so to be. In financial institutions they are meant to attract business without attending to it. With the reduction of boards to a workable body the interest and activities of each man will be centered in his own institution, and we shall have a consequent resumption of competition.

The disintegration of the holding company can be accomplished with still less friction or disturbance, by merely distributing the shares so held among the shareholders of the holding company. The only "disturbance" to business that would thus be involved would be to restore the competition that has been thus restrained. If the stockholdings involve no restraint of competitive conditions the pending Senate bill offers complete relief through application to the Trade Commission, or, in the case of common carriers, to the Interstate Commerce Commission, which has power to permit holdings of that character.

I agree, however, and have earnestly urged that these prohibitions against interlocking directors and holding companies should be limited to cases in which the interlocking of directors or stockholdings would substantially affect the public interest and that the smaller corporations be accordingly eliminated from the provisions of the bill. There is no reason

for hampering small business. None of the perils sought to be avoided lurk within its borders. The operations of the small corporations are not charged with a public use and do not affect the public welfare in the sense that applies to the larger ones.

The suggestion for restricting the jurisdiction of the Trade Commission in these respects has been embodied in the form of proposed amendment, limiting the bill to interstate corporations having $1,000,000 capital or $2,000,000 of gross assets or $3,000,000 of gross annual business. Such an amendment will confine the operations of the bill to a comparatively few cases. It will eliminate at least 90 per cent. of the corporations that do an interstate business.

I cannot conceive why any business readjustment, embarrassment or inconvenience would be involved in enacting any of the other reforms that are now under consideration. The dummy director and the secret and indirect control cannot be justified. No defense of these practices has ever been attempted. No one has the right to accept the benefits and attempt to escape the responsibilities of corporate management through such devices.

Nor has there ever yet been any justification attempted of the failure to enforce minority representation in corporations through cumulative voting. Some of the State Constitutions, of which those of Missouri and Pennsylvania are ready illustrations, make it compulsory to provide such representation, as it should be in every State. If, for instance, a board of directors is composed of nine members, there is no reason why the owners of each one-ninth of the stock should not be represented by one director, which is automatically accomplished through what is known as cumulative voting. The majority would still control, but the minority would have the privilege of knowing what is being done, of protecting itself against unlawful acts and of having its voice heard on questions of business policy in which it is vitally interested.

The supervision of the issue of bonds and stocks of interstate corporations by Federal authority, which is now proposed, is still another of the recommendations of the Pujo Committee. It is a tardy recognition of the right of the public to be protected against exploitation through banking control or by the sale of worthless and inflated securities, to secure an accounting of corporate expenditures and to prevent the use of corporate funds in the corruption of public officers and legislative bodies. If these safeguards had been in existence in past years we should have been saved the national scandals that are being from time to time unearthed, to the destruction of our credit and reputation abroad and at home.

The bill to require the incorporation of Stock Exchanges and to place them place them under Federal supervision is an essential part of any comprehensive program for corporate reform. The manipulation of securities through the machinery of the Exchange and their wide distribution under cover of such manipulation has been the most prolific incentive for the organization of the trusts. It has cost the public more hundreds of millions than they have suffered through any other of the many devices through which they have been plundered.

The remaining provisions that are intended to secure the general and impartial enforcement of the anti-trust act, the effective execution of the judgments of the court and the remedies to individuals who are injured by violations of law, can hardly be claimed as disturbing elements. If the act as originally framed had secured to individuals aggrieved by its violation—as it should have done—the right to prevent the organization of unlawful combinations or to enjoin their operations, the country would have escaped this vexatious problem. Few, if any, of the trusts would have been permitted to come into existence. Threatened private interests would have realized their peril and would have been alert to protect themselves. The government stood idly by and by its silence lent consent and encouragement. The sole remedy allowed by the seventh section of the

anti-trust act to private interests, to recover treble damages for such injury, has proven inadequate, as might have been expected. The burden of conducting such litigation is in itself prohibitive and the necessity of proving the damage under our rules of evidence, requiring that it must be the proximate cause of the injury, rendered relief impossible.

The only reason that has ever been assigned for not permitting an aggrieved party to sue in equity to enjoin or dissolve the combination, that it would give rise to blackmailing suits, has never seemed to me a sufficient answer. Anybody can be sued without cause and must defend himself. Corporations as well as individuals are now subject to suit on every other conceivable ground. Why should the courts have been so solicitous to protect them against attack on this particular ground in which the public is so vitally interested when it is notorious that the Department of Justice has never attempted to enforce the law except in a comparatively few spasmodic cases of conspicuous corporations out of the thousands of known open violations. It would be physically impossible for the Department to enter upon any general enforcement of the law, even if it were disposed to do so, and it has never shown any such disposition.

It must have been manifest from the beginning that if the enforcement of the law was really desired the only way to secure it would be to permit it to be done by private individuals who are affected by its violation.

The proposed amendment meets the objection that has been made, in that it requires any individual who sues in equity, to join the the government as a party, so that the suit cannot be discontinued or dismissed by agreement between the parties without the consent of the government. The latter is given the right also to assume the prosecution of the case at any stage of the proceedings, or to withdraw from the suit, and is not to be bound by the judgment unless it assumes the prosecution and continues in it to the end.

Is there anything in these provisions that should be disturbing to business? Or in the further requirement that the new Trade Commission shall be consulted and its approval obtained in determining the manner of dissolving unlawful combinations and the form of the decree and that it shall see to the proper execution of that decree? These requirements will doubtless be very disturbing to certain classes of business, especially to the trusts that have been declared unlawful, have been decreed to be dissolved and that are still flourishing as though nothing had happened. It may also prove somewhat disconcerting to the public officials who have frittered away the practical results of hard-earned government victories and to those who have consented to meaningless decrees of dissolution. It is high time that we did away with these performances. I venture to predict that if this amendment is passed the Trade Commission will find a way of securing an actual dissolution of the Standard Oil Company and of numerous other violations that have been dissolved in form but not in fact.

If, then, it be true that the pending legislation involves no disturbance of legitimate business, we return to the inquiry as to the reason for the existing unsettlement and depression.

There has never been any doubt in my mind as to the true reason.

It is due to the lawlessness and corruption in the management of our great corporations and to the destruction of the confidence of our home and foreign investors, following the exposures of a few of the many instances that characterize the conduct of our corporate affairs. There is nothing exceptional or that should be considered surprising about the disclosures with respect to the management of the New Haven road that have recently been engaging public attention. In this particular instance the investigation thus far has barely scratched the surface. It relates only to a single phase of the New Haven road and involves the diversion of only about $11,000,000 out of a total of over $200,000,000 that

will have to be accounted for some day, provided the comatose shareholders will ever awaken and have the sense or can summon the courage to assert their rights. If the investigation of the Interstate Commerce Commission is extended into the other transactions so as to include the vast purchases of comparatively worthless competing properties at fabulous prices for the purpose of destroying competition, the dimensions of the offenses committed against the stockholders of that company will be of a character to render the exposures incident to the French Panama Canal scandal as a moonlight silhouette compares to a volcanic eruption.

I believe, also, it will be found that if the affairs of a number of other equally or still more prominent railway systems that might be mentioned ever come under the scrutiny of an executive or legislative investigation or of a court of justice we shall find exploitations of the shareholders or the public quite as startling as anything that has been or will be exposed in the investigation of the New Haven road.

It is, however, to be hoped that the government will not embark upon any such general crusade. Our credit and reputation have already suffered sufficiently from the mere suggestion of the general corruption that lies underneath the surface of past corporate management. The country seems sufficiently aroused to the realization of its disgrace to offset the machinations of the interests that would ordinarily be able to prevent reformatory legislation, and it is not worth while to further disturb confidence by turning up any more of the horrible facts. We know, in a general way, enough of the evils to be able to apply the remedy.

None of these things could have happened under proper Federal supervision, nor if we had laws, as in other civilized countries, prohibiting directors from dealing with themselves or lining their pockets at the expense of their shareholders or "rigging" the stock markets in their own securities or gambling on inside information.

These mentors of the business and financial world sternly admonish us that every attempt to expose or correct these evils is "disturbing business." Until that kind of business was disturbed and destroyed by exposure and by the legislation that is needed to punish it, as it deserves, we would not have and have no right to expect the return of public confidence. There is one aspect in which the shareholders of these corporations and the public deserves just the kind of treatment they have been receiving at the hands of the men who dominate these corporations solely by reason of the supineness of the real owners. If they know how to protect their rights they have never given any indication of it.

Here, again, the case of the New Haven is only one of a hundred striking illustrations of the criminal inertia of stockholders. When the trouble first arose they sat aimlessly by and saw a highly respectable decoy "protective" committee organized, apparently in protection of the corrupt management to ward off real investigation.

What has become of that committee? If there was any member upon it who really represented the true interest of the stockholders why was nothing ever done to uncover the rottenness of the management? If they made an examination of the accounts why did they not report the existing conditions to the stockholders? Why did they permit the investing public to go on buying the shares in ignorance of the facts? Why did they allow the faithless officers and directors to be re-elected? Why have the stockholders never organized and elected their own representatives to protect their rights and to secure restitution? What is the matter with these people, who have had the intelligence and frugality to amass these interests, that they lack the common instinct of self-preservation to protect themselves? They have been told that over $60,000,000 in unearned dividends have been paid; that a huge corruption fund has been used to procure franchises for a worthless property; that a large part of $200,000,000 that has been expended has been devoted to

the buying of competing properties at fabulous prices in violation of law and that almost every crime in the calendar against corporate management has been perpetuated under the eyes of their faithless trustees, if not with their co-operation or encouragement. Thousands of these stockholders acquired these interests in recent years upon the faith of the inducement of the dividends that were being paid and of the representations contained in the annual statements to the effect that the earnings were in excess of these dividends. What right have these men and women who are idly standing by with knowledge of these facts to expect sympathy or consideration? If they have no regard for their own investments they have, at least, a public duty to perform which none of them seem willing to undertake.

For years past our leaders in the financial world have been cunningly educating the public to the belief that every attempt to uncover corporate rottenness or enforce accountability for the sacred trusts reposed in the officers and directors of these corporations was a "strike" or an attempt at blackmail. No stone has been left unturned to crush and disgrace the few men of courageous spirit who have tried to protect the shareholders and the public. When Mr. Louis D. Brandeis led the assault upon the New Haven management and tried to open the eyes of the stockholders to the situation, when he told them that they were being deceived, that the dividends were not being earned, he was denounced and traduced as an enemy to society. Almost every Representative from his State in Congress and prominent men in public life from adjoining States banded together, largely through the influence of the New Haven road, to prevent him from securing an entrance into public life in the position in which he would have been of inestimable aid to the Nation and which he would have graced and honored by his acceptance. It has been notorious that for decades the New Haven road has consistently corrupted and has practically owned the Legislatures of certain of

the New England States. It regarded these exhibitions of its power to punish enemies and reward its friends with high public office as essential, and it has never hesitated to do so whenever occasion presented itself.

I repeat that we are getting just the kind of corporate management we deserve, and that so long as this spirit is permitted to pervade the public mind we shall continue to get that sort of management, and none other.

And yet we continue to listen to the counsels of these men and permit ourselves to be beguiled as to the cause of our present troubles. Is it any wonder that the investors of other nations have been throwing our securities back upon us at any price they can get for them, glad to be rid of us on any terms? Or that we are unable to sell any more securities abroad? Or that our markets are depressed and we find difficulty in financing the requirements of the maturing obligations of our public service corporations? Why should the small investor entrust his hard-earned savings to the men who have mercilessly exploited and betrayed him whilst moralizing in public upon the importance of character as the essential to success, to the chorus of a worshiping press led by their chosen press bureaus?

This only begins to tell the story of the callousness and stupidity of our people. Not even when their eyes have been opened against their wills, and in the face of their resentment at the exposure of the faithlessness of their chosen trustees, do they begin to see or act. They go on permitting and encouraging these same men to manage the trusts they have betrayed. The power behind the throne that has named the presidents and trustees of the looted corporation proceeds to discipline his tools by removing the chief scapegoat and selecting another man, always of previous untarnished reputation, but always pliant to his will, in his place, not even taking the trouble to change the minor puppets. At the next election of shareholders the proxies are

gathered with the same ease by the same people and the old order of things is continued without even a semblance of change, except in the nominal directing head, but subject to the same mysterious control.

We had a like disheartening experience following the exposure of life insurance corruption in 1906. The nominal heads were deposed, but the power behind the throne and the old disciples remain. Yet none of these man had or has had a single dollar of actual investment in the companies.

As indicating the close relations of the operations of the various departments of the "Money Trust" to one another, I call your attention in this connection to a few significant facts. Prior to the insurance upheaval Mr. George F. Baker was the Chairman of the Finance Committee and the dominating spirit in the Mutual Life Insurance Company. He is now more firmly than ever in control. Mr. Baker is and has been for many years a partner of Mr. Morgan in all of the great enterprises. They together dominate or control the Equitable Life Assurance Society, the First National Bank, the National Bank of Commerce, the Bankers Trust Company, the Guaranty Trust Company and numerous other great financial institutions. When Mr. McCall was forced to resign as the result of the life insurance exposures there was placed in the presidency of that company with $500,000,000 and more of assets the law partner of Mr. Baker's uncle, who was incidentally Mr. Baker's private counsel and the counsel for his bank. The Mutual Life held 35,640 shares of New Haven stock. The law passed in 1906 as the result of the scandal required them to dispose of all their stocks within five years, which they subsequently had extended for a further term of five years, to the disgrace of our Legislature. The New Haven stock, which is now selling at $68 per share, could readily have been marketed during those years at $200 or thereabouts. The company has not parted with a share. The difference in price means a loss of over $5,000,000 to the policyholders of the Mutual Life

Insurance Company, but this large block of stock is important to Messrs. Baker and Morgan in their control of the New Haven road, and it is steadily voted from year to year as they direct.

But I have digressed.

With a few exceptions, the presidents of these roads and great industrial organizations and all the directors are named by the same authority. The shareholders have no real voice in their selection. In any other country the whole outfit from top to bottom would have been "drummed out of the camp" in short order, and there would have been an uprising that would resound through the length and breadth of the land if they were allowed to escape with their liberties.

The attitude of the Interstate Commerce Commission is doing the right thing in ripping the lid from this nest of corruption to the extent necessary to guide Congress in legislating to correct these evils, even though it involves immunity to the chief puppet of the men who guided the destinies of the company. I am not so sure that it is necessary or advisable to extend the immunity further or that any valuable results will come from so doing, but the inaction of the Department of Justice has been so exasperating and its purposes so unfathomable that everyone has long despaired of results in that direction.

With such conditions surrounding us we ought not be surprised to find these men "advising" us that if we seek to correct the evils for which they are responsible and which have destroyed public confidence, the administration which is responsible will be chastised by the "business" community for which they assume to speak. The proposition that we continue to permit ourselves to be guided by them is so staggering in its temerity that one is at a loss for words to characterize it.

The remedy is simple. Public confidence in corporate management must be restored. The existing legal machinery does not assure responsibility and

punishment for the misdeeds of big business. The enactment of the pending bills properly strengthened will help accomplish that result. Ours is a rich country. Our wealth is fairly well distributed, notwithstanding the many hundreds of millions that have been confiscated by these men in one way or another by way of tribute or through gross neglect. A fraction of it can still be recovered by the defrauded shareholders if they will band together in each of these great corporations to enforce restitution and protection for the future.

If the lessons of the past have taught them to manage their own affairs hereafter it will have been worth the fearful cost. When they are able to do that as in former years, when these great properties were built up and operated by their real owners, and not until them, the investing public here and abroad will again interest itself in our enterprises. Meantime we can do our share toward reassuring the civilized world that we are not a nation of freebooters, and that we have sufficient of the capacity for self-government left to end the corruption and lawlessness of high finance so that capital will hereafter be as safe with us as in other countries.

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